



May Revision to the Proposed 2007-08 State Budget: Summary

Background

Each May, the Governor introduces a “May Revision” to his State budget proposal for the coming budget year—in this case fiscal year 2007-08. The adjustments include more up-to-date State revenue and expenditure estimates and more accurate caseload and workload projections for State programs. The May Revision also makes adjustments to current-year (2006-07) spending and can include new initiatives and adjustments to proposals that were presented in the original January Governor’s Budget.

Revenues and Expenditures Summary

The May Revision proposes to increase general purpose fund expenditures for 2007-08 by \$2.5 billion or 1.7% over the January budget spending level. It also proposes \$430 million in program reductions—\$200 million for the current year and \$230 million for the budget year. These cuts are in addition to \$2.5 billion in reductions in various State programs contained in the Governor’s proposed January budget. The May Revision proposes to increase the projected State General Fund reserve by \$1.6 billion to \$2.2 billion, and maintains the pre-payment of \$3.1 billion in outstanding State debt for 2007-08. Display 1 presents May Revision general-purpose funding changes for each State program area.

For projected overall revenues, the May Revision estimates are minimally changed from the January 2007-08 budget—\$127.8 billion in January and \$128.1 billion in May. Similarly, revised 2007-08 State General Fund revenues are estimated at \$101.3 billion, a fractional decrease (\$24 million) from the level assumed in the January proposal.

The May Revision notes that estimates for 2007-08 property tax and State income tax receipts are lower than was forecast in January, due to the decline in the State’s housing sector. Revenues in 2006-07 from sales and income taxes, cumulatively, are \$213 million above January projections, but the May Revision projects lower 2007-08 revenues from sales taxes (-\$506 million) and personal income taxes (-\$362 million). Corporation tax revenues are anticipated to be \$406 million above January estimates for 2006-07 and \$237 million above January estimates for 2007-08.

With the current-year and budget-year changes proposed in the May Revision, the Administration estimates that the budget’s “structural” deficit will decline from its current estimated \$4.4 billion to \$1.4 billion by the end of the 2007-08 fiscal year.

DISPLAY 1 May Revision Proposed 2007-08 State Budget
General-Purpose Fund Expenditures (dollars in millions)

Program Area	Jan 2007	May 2007	Dollar	Percent
	Proposal	Revision	Change	Change
K-12 Education	\$45,122	\$45,351	\$229	0.5%
Higher Education	14,909	15,051	142	1.0%
Health, Human Services	38,100	38,189	89	0.2%
Correc. and Rehab.	10,065	9,991	-74	-0.7%
Bus.-Trans.-Housing	11,771	12,954	1,183	10.1%
Resources, Cal-EPA	7,037	7,502	465	6.6%
State, Consumer Services	1,406	1,404	-2	-0.1%
Labor, Workforce Devel.	426	422	-4	-0.9%
General Government	8,500	8,599	99	1.2%
Legis.-Judicial-Executive	6,073	6,401	328	5.4%
TOTALS	\$143,409	\$145,864	\$2,455	1.7%

Totals include General Fund, special funds, and selected bond funds; federal funds and reimbursements are excluded.

Sources: California Department of Finance, other sources

Higher Education

With the May Revision, the Governor's budget now proposes \$15.1 billion in general purpose funds (combined State General, Lottery, and local funds) spending for California higher education. This is \$141 million (0.9%) above the \$14.9 billion in higher education spending contained in the January proposal.

Display 2 shows revised general purpose funding by higher education entity. Below are the major May Revision highlights for each higher education segment, for both the current and budget years.

California Community Colleges

Increases in the overall K-14 Proposition 98 funding guarantee provide community colleges with an estimated \$152 million in increase funding for the current and budget year. The May Revision proposes one-time initiatives for both years:

Current Year (2006-07)

- \$50 million for the college's career technical education programs for equipment and associated physical facility reconfigurations.
- \$50 million for grants to colleges for equipment and other one-time purposes for nursing programs.

Budget Year (2007-08)

- \$23.6 million increases for apportionments (enrollments) and \$1.6 million increases for selected categorical programs, per the revised COLA of 4.53%, up from January's 4.04%.
- A base reduction of \$80 million in apportionments to reflect unused 2005-06 and 2006-07 enrollment growth funding.
- \$10 million increase for the systems' "Matriculation" program of student diagnostic and support services and other program adjustments related to the community colleges' recent initiative to improve basic skills instruction.
- \$47.5 million for deferred maintenance, instructional equipment, and removal of hazardous substances, subject to a local matching-fund requirement.
- Several smaller initiatives and technical budgeting adjustments.

California State University

- \$3.6 million to fund an additional 340 FTE nursing students in the system.

University of California

- A workload increase of \$2 million (one-time funds) in Proposition 99 funds for tobacco-related research, reallocating unused funds from prior years.
- Proposed budget trailer bill language formalizing the State's intent to fund its share of the employer contributions to the UC retirement system, if mandatory retirement contributions to the retirement plan are reinstated at UC.

California Student Aid Commission

Prior Year (2005-06)

- \$2 million in budget savings from unused Cal Grant Program awards program funds.

DISPLAY 2 2007-08 May Revision Proposed Higher Education State Funding (dollars in thousands)

<u>Segment</u>	<u>Jan 2007 Proposal</u>	<u>May 2007 Revision</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Univ. of California ¹	\$4,638,105	\$4,649,231	\$11,126	0.2%
Hastings College	10,631	10,631	0	0.0%
California State Univ.	3,428,494	3,502,032	73,538	2.1%
Calif. Comm. Colleges	5,320,311	5,388,465	68,154	1.3%
Student Aid Comm.	891,608	871,596	-20,012	-2.2%
Postsec. Ed. Comm.	2,186	2,186	0	0.0%
<u>Other Higher Ed. ²</u>	<u>618,773</u>	<u>627,345</u>	<u>8,572</u>	<u>1.4%</u>
Total Expenditures	\$14,910,108	\$15,051,486	\$141,378	0.9%

1. "UC" includes the Institute for Regenerative Medicine.

2. "Other" includes General Obligation Bonds and Retirement Costs.

Note: "State" funding includes General, local, lottery and Selected Bond funds; these totals exclude student fee revenues.

Sources: Department of Finance, higher education systems, other

Current Year (2006-07)

- \$23 million in reductions, reflecting lower than anticipated costs for transfer entitlement awards and Cal Grant entitlement program awards; this second revision is due to changes in the numbers of students choosing higher- vs. lower-cost institutions.
- \$1.3 million in reductions, based on estimated current-year payments for the Assumption Program of Loans for Education (APLE).

Budget Year (2007-08)

- \$42.8 million reductions, due to lowered estimates of anticipated Cal Grant Program awards.
- \$2.5 million increase, per revised estimates of payments for the APLE program.
- \$20.3 million to assume funding of the Commission's State operations and financial aid awareness program (CalSOAP).

The budget year actions result in \$20 million decrease in State General Funds for the Student Aid Commission. The May Revision also proposes to sell EdFund to a private entity. EdFund is a non-profit, quasi-governmental organization that provides student loan guaranty services under the Federal Family Education Loan Program. The May Revision notes that EdFund is the nation's second largest student loan guarantor, with a loan portfolio of over \$27 billion. The Administration estimates that this sale will generate State revenues of nearly \$1 billion.

The May Revision does not propose to restore State funding for the CSU and UC academic preparation programs, and it does not include State funds to buy-out segmental revenues anticipated due to recently-adopted increases in systemwide student fee levels.

K-12 Education

The May Revision proposes net spending increases of \$469 million for the current and budget year for K-12 above the January budget proposal. Program and funding changes include:

- \$226.8 million increase for various K-12 programs, per the revised COLA of 4.53%, up from January's 4.04%.
- \$293.3 million net reduction in enrollment funding to reflect the decline in ADA from the January budget projection.
- Reworking of the January budget proposal to shift the \$627 million Home-to-School Transportation program from Proposition 98 to the transportation budget's Public Transportation Account (PTA). The revised proposal retains Home-to-School Transportation inside Proposition 98, with PTA reimbursing the General Fund for the cost of this program. The revised proposal is still estimated to result in \$627 million in General Fund savings.
- \$100 million for grants to school districts to support the hiring of additional credentialed career technical education teachers and college preparatory "A-G" course instructors.
- \$25 million to increase the number of high school counselors that specialize in K-12 career technical education initiative (CTE) and \$50 million for career technical education programs for equipment and facility renovations related to these programs.
- \$50 million in ongoing Proposition 98 funding for the second phase of the PreKindergarten Family Literacy Program. This initiative is designed to expand preschool offerings for pre-kindergartners who live in attendance areas of elementary schools that ranked in the lowest three deciles on the Academic Performance Index (API) as of 2005.

Other Programs

The Governor proposes that the State lottery be leased to a private concessionaire, with the State retaining ownership and regulation of the lottery. The proceeds of this sale are to be used to pay off outstanding Economic Recovery Bonds. Among the largest proposed State spending reductions in the May Revisions is a reduction in Supplemental Security Income/State Supplementary Payment (SSI/SSP) funding by \$262.3 million below the January Budget level. Of these savings, \$185 million will be generated by suspending the State portion of the annual COLA for SSI/SSP.

The May Revision also notes the anticipated work of the Public Employee Post-Employment Benefits Commission during the budget year. This agency was created to examine unfunded State pension, retiree health benefits, and other post-employment benefits for public sector employees, and to develop recommendations on how the State can meet those financial obligations. That Commission is to report to the Governor and Legislature by January 1, 2008.

Next Steps

Through the end of May, Assembly and Senate budget subcommittees will make decisions on the May Revision proposals and forward their final reports to the full Assembly and Senate Budget committees. Each House will vote upon their budget reports, and differences will be reconciled in a Budget Conference Committee, which is required to complete its budget deliberations by June 15th. Each House must approve the final Conference Committee product, which is then forwarded to the Governor. The Governor accepts or rejects (“blue pencils”) appropriations in the budget before signing it into law by the constitutional deadline of July 1st.

Department of Finance web link to the 2007-08 May Revision:

<http://www.ebudget.ca.gov/pdf/Revised/BudgetSummary/FullBudgetSummary.pdf>

Legislative Analysts web link to overview of 2007-08 May Revision:

http://www.lao.ca.gov/2007/may_revise/may_revise_051507.pdf